



# **DISCLOSING OPEBs IN YOUR FINANCIALS:**

## **The Next Frontier**

**Jay M. Goldstone**  
**Chief Financial Officer**



## BASIC DEFINITIONS

- OPEB – Other Post Employment Benefits
- UAAL – Unfunded Accrued Actuarial Liability.  
Actuarial Accrued Liability minus the Actuarial Value of Assets
- Annual Required Contribution – Normal Cost plus an amortization of the funding shortfall over a period of no more than 30 years.
- Net OPEB Obligation – Difference between your ARC and your actual contribution(s).



## UNDERLYING CONCEPTS

- Applies to all employers that provide OPEB
- OPEB is a form of compensation for services
- Accrual-basis accounting for expenses
- Recognition of this liability
- Does not require funding
- Statement 45 allows for use of a net OPEB obligation of zero at the beginning of the initial period of implementation



## IMPLEMENTATION

- Phased in over three years
- Begins December 2007 for large entities



## GETTING STARTED

- Setting your assumptions
  - This is not your pension plan
  - You don't have history
  - There is no existing portfolio
- Consider your actions
  - Does it constitute an admission of vesting?
- Pay-As-You-Go (down the tubes)
- Pay your ARC (will be expensive)



## SAN DIEGO DATA POINTS

- 10,426 Active Participants
  - 3,019 Safety
  - 7,407 General
- 4,159 Retirees
- System Closed July 1, 2005
- Covers Employee Only (no dependents)
- Annual Cap on Premium Paid
  - (approx. \$6,800 per year)
- Cap Increases by pre-established criteria



## SAN DIEGO'S CALCULATION

- Completed as of June 30, 2005
- Used a 6% Rate of Return
- AAL
  - \$380.5 Million for Safety
  - \$597.9 Million for General
- \$978.4m or 17.5% of Payroll
- ARC – \$115 Million
- Pay-As-You-Go
  - \$19.6 million 2007
  - \$54.4 million 2015





## SAN DIEGO'S CALCULATION

- Talk to your external auditors
- Changed the calculation to use a 4% Rate of Return
- AAL
  - \$535.8 Million for Safety
  - \$846.4 Million for General
- \$1.382b or 24% of Payroll
- ARC – \$160.6 Million
- Pay-As-You-Go
  - \$19.6 million 2007
  - \$54.4 million 2015





## WHAT'S NEXT?

- Report results in CAFR
  - Transmittal letter for now
- Make a determination as to vesting
- Continue pay-as-you-go approach
- Begin funding a Trust
- Build information into 5-year Financial Plan
  - Just one more decision point



## TO BOND OR NOT TO BOND

- That is the Next Big Question
- Go Cautiously
  - May not have an asset base/no existing portfolio
  - May reduce but does not eliminate your ARC
  - Market risks
  - Can be misleading and lead to other decisions you may regret later
- One more tool in the tool bag



QUESTIONS?????

